

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /083 W
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R 221044Z MAR 77
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 6963
INFO AMEMBASSY NEW DELHI

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E.O. 11652:N/A
TAGS: ECON, PINT, CE
SUBJECT: GSL TO PROVIDE MORE RICE AND OTHER GOODIES BEFORE ELECTIONS

REF: (A) COLOMBO 0257; (B) COLOMBO 0942; (C) COLOMBO 1014

1. SUMMARY. BEGINNING APRIL 4, WEEKLY RICE RATION WILL BE INCREASED TO UNIFORM THREE POUNDS PER PERSON WHICH WILL ADD 20,000 METRIC TONS PER MONTH TO AMOUNT OF RICE DISTRIBUTED BY GSL. REPORTEDLY, FOURTH POUND WILL BE ADDED TO RATION IF STOCKS PERMIT WHICH WOULD RAISE MONTHLY DISTRIBUTION BY ANOTHER 25,000 TONS TO A TOTAL OF 100,000 GONS. EVEN IF 1977 DOMESTIC RICE PRODUCTION REACHES VERY OPTIMISTIC PROJECTIONS, HIGHTER LEVEL OF IMPORTS AND INCREASE IN DOMESTIC PROCUREMENT PRICE WILL LIKELY BE REQUIRED TO ALLOW GSL TO MEET COMMITMENTS UNDER RATION PROGRAM. GSL ALSO IMPORTING LARGE QUANTITIES OF OTHER FOOD STUFFS AND FORCING PRICE REDUCTIONS ON BROAD RANGE OF GOODS. FINANCE MINISTER'S EFFORTS TO MAKE VOTERS HAPPY BEFORE ELECTIONS WILL MORTGAGE SRI LANKA'S ECONOMIC FUTURE FOR YEARS TO COME. ALTHOUGH PUBLICLY OUTRAGED AT THESE CYNICAL POLICIES, UNP OFFICIALS PRIVATELY EXPRESS GRUDGING ADMIRATION FOR

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FINANCE MINISTER'S PROGRAM AND ADMIT THEY WOULD DO SAME THING IF THEY WERE TRYING TO STAY IN OFFICE. END SUMMARY

2. BEGIN UNCLASSIFIED. GSL HAS ANNOUNCED THAT BEGINNING APRIL 4, WEEKLY RICE RATION WILL BE INCREASED TO A UNIFORM 3 POUNDS PER WEEK FOR ALL 14 MILLION SRI LANKANS. GOOD COMMISSIONER'S OFFICE ESTIMATES THIS ACTION WILL INCREASE AMOUNT OF RICE

DISTRIBUTED UNDER RATION PROGRAM FROM ABOUT 55,000 METRIC TONS PER MONTHS TO APPROXIMATELY 75,000 TONS.

3. AT PRESENT TIME, RICE RATION CONSISTS OF TWO POUNDS PER WEEK PER PERSON FOR 80 PERCENT OF TOTAL POPULATION LIVING IN RURAL AREAS, WHILE REMAINING 20 PERCENT IN RICE-SHORT URBAN AREAS RECEIVE THREE POUNDS PER PERSON. OF THESE AMOUNTS, INDIVIDUALS WHO PAY NO INCOME TAX (ABOUT 99 PERCENT OF TOTAL POPULATION) RECEIVE ONE POUND FREE. REMAINDER OF RATION IS SOLD AT SUBSIDIZED PRICE OF ONE RUPEE PER POUND. (OPEN MARKET PRICE FOR RATION-QUANTITY RICE IS NOW ABOUT RS. 1.30 TO RS. 2.50 PER POUND.) AS OF APRIL 4, DIFFERENTIAL BETWEEN URBAN AND RURAL RATION WILL BE ELIMINATED AND EVERYONE WILL BE ENTITLED TO THREE POUNDS.

4. PRESS REPORTS STATE THAT A FOURTH POUND WOULD BE ADDED TO EVERYONE'S RATION IF SUFFICIENT STOCKS BECOME AVAILABLE. THIS WOULD BOOST MONTHLY DISTRIBUTION TO AROUND 100,000 TONS.

5. IN 1976, GSL PURCHASED ONLY ABOUT 188,000 TONS OF RICE FROM DOMESTIC PRODUCERS (ABOUT 22 PERCENT OF TOTAL PRODUCTION THAT YEAR) AT GUARANTEED PRICE OF RS. 33 PER BUSHEL TO SUPPLY RATION PROGRAM, GSL HAD TO IMPORT MORE THAN 444,000 TONS OF RICE. EVEN IF DOMESTIC RICE PRODUCTION REACHES VERY OPTIMISTIC PROJECTION OF 1.288 MILLION TONS (REFTEL A), AND ASSUMING GSL BUYS ABOUT SAME PERCENTAGE OF OUTPUT AS IN 1976, DOMESTIC SOURCES WOULD PROVIDE ONLY ABOUT 283,000 TONS. AT LIMITED OFFICIAL USE

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75,000 TONS PER MONTH, ANNUAL CONSUMPTION UNDER RATION PROGRAM WOULD BE 900,000 TONS LEAVING A DEFICIT OF 617,000 TONS TO BE COVERED BY IMPORTS. AT CURRENT DELIVERED PRICE OF ABOUT \$200 PER TON, THIS LEVEL OF IMPORTS WOULD COST ABOUT \$123.4 MILLION, OR ABOUT 187 PERCENT OF TOTAL IMPORTS LAST YEAR. IF RATION IS INCREASED TO FOUR POUNDS, ANNUAL RATION CONSUMPTION WOULD BE 1.2 MILLION TONS OF WHICH 917,000 TONS WOULD HAVE TO BE SUPPLIED BY IMPORTS, AT AN ESTIMATED COST OF \$183.4 MILLION. IN ORDER TO OBTAIN A GREATER SHARE OF DOMESTIC PRODUCTION, GSL MAY WELL INCREASE GUARANTEED PURCHASE PRICE FROM PRESENT RS. 33 PER BUSHEL.

6. GSL ALSO IMPORTING LARGE QUANTITIES OF TEXTILES, CANNED FISH, SPICES, AND OTHER FOOD ITEMS IN PREPARATION FOR APRIL SINHALA AND TAMIL NEW YEAR FESTIVITIES (NOT TO MENTION ELECTIONS LATER IN THE SUMMER). FOLLOWING MARCH 12 REVALUATION OF RUPEE (REFTEL B AND PREVIOUS)

GSL HAS ANNOUNCED REDUCED PRICES ON BROAD RANGE OF COMMODITIES INCLUDING FERTILIZER, KEROSENE, FOOD ITEMS, AND VARIOUS IMPORTED AND LOCALLY PRODUCED MANUFACTURED PRODUCTS. EMBASSY UNDERSTANDS THAT GSL FORCING PRICE CUTS ON GOODS ALREADY IMPORTED BEFORE REVALUATION WITH IMPORTERS HAVING TO ABSORB COST. END UNCLASSIFIED.

7. BEGIN LIMITED OFFICIAL USE. COMMENT. REVALUATION, FORCED PRICE REDUCTIONS, HIGHER RICE RATION, AND INCREASED FOOD IMPORTS ALL PART OF FINANCE MINISTER FELIX BANDARANAIKE'S PROGRAM TO TRY AND MAKE VOTERS HAPPY BEFORE GENERAL ELECTIONS DUE LATE THIS SUMMER. RESOURCES AVAILABLE FOR THIS PROGRAM GREATLY INCREASED BY \$105 MILLION TO BE PROVIDED BY LIBYA AS AN ADVANCE AGAINST TEA PURCHASED OVER NEXT FOUR YEARS (REFTEL C). MOVES TAKEN SO FAR, AND THERE WILL UNDOUBTEDLY BE MORE ALONG SAME LINES BEFORE ELECTIONS, LIMITED OFFICIAL USE

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SHOW THAT FINANCE MINISTER (WITH CONCURRENCE OF PRIME MINISTER) PREPARED TO MORTGAGE SRI LANKA'S ECONOMIC FUTURE TO HELP SLFP'S CHANCES OF WINNING ELECTION. ECONOMIC PROBLEMS CREATED BY PRE-ELECTION CAMPAIGN WILL PLAGUE ANY NEW GOVERNMENT FOR YEARS TO COME. MINISTER'S ATTITUDE SEEMS TO BE THAT IF HIS PROGRAM WORKS AND SLFP RETURNED TO POWER, THAT WILL BE TIME ENOUGH TO FIGURE OUT HOW TO UNDO DAMAGE. SHOULD SLFP LOSE, THEY WILL THEN BE ABLE TO ATTACK NEW GOVERNMENT OVER DETERIORATING ECONOMIC SITUATION.

8. WHILE SLFP'S ATTITUDE MAY SEEM PARTICULARLY CYNICAL AND CRRUPT, CONVERSATIONS WITH UNP LEADERS INDICATE THEY ARE AWED AND ENVIOUS OF FINANCE MINISTER'S PERFORMANCE SO FAR. REGARDING RUPEE REVALUATIONMP, RONNIE DE MEL, WHO IS OFTEN RUMORED AS POSSIBLE FINANCE MINISTER SHOULD UNP WIN ELECTION, TOLD DCM IN CONFIDENCE THAT UNP WOULD HAVE DONE SAME THING IF IT WERE IN SLFP'S PLACE, AND EXPRESSED GRUDGING ADMIRATION FOR FINANCE MINISTER BANDARANAIKE'S PRE-ELECTION POLICIES. HE ADDED PREDICTION THATFELIX WOULDREVALUE ONCE MORE JUST BEFORE ELECTION. END LIMITED OFFICIAL USE. REED

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Message Attributes

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